

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



FILED
5-16-16
04:59 PM

Application of San Diego Gas & Electric Company
(U 902 E) for Approval of Energy Storage and Energy
Efficiency Contracts Arising from the Track IV Local
Capacity Requirement All Source Request for Offers

Application 16-03-014
(Filed March 30, 2016)

**REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)
TO RESPONSE AND PROTEST**

John A. Pacheco

Attorney for
San Diego Gas & Electric Company
8330 Century Park, CP 32
San Diego, California 92123
Telephone: (858) 654-1761
Facsimile: (619) 699-5027
E-mail: JPacheco@sempra.com

May 16, 2016

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	AReM/DACC’S RESPONSE RAISES AN ISSUE THAT SHOULD BE INCLUDED WITHIN THE SCOPE OF THIS PROCEEDING	2
III.	CESA’S PROTEST IS NOT CONSISTENT WITH THE COMMISSION’S DIRECTIVE REGARDING THE TIMING OF ES PROCUREMENT AND CONTRARY TO THE BEST INTEREST OF SDG&E’S CUSTOMERS.....	3
IV.	CONCLUSION	7

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of San Diego Gas & Electric Company
(U 902 E) for Approval of Energy Storage and Energy
Efficiency Contracts Arising from the Track IV Local
Capacity Requirement All Source Request for Offers

Application 16-03-014
(Filed March 30, 2016)

**REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)
TO RESPONSE AND PROTEST**

I. INTRODUCTION

Pursuant to Rule 2.6 of the California Public Utilities Commission’s Rules of Practice and Procedure, San Diego Gas & Electric Company (“SDG&E”) hereby files this Reply to the Response filed by the Alliance for Retail Energy Markets (“AReM”) and Direct Access Customer Coalition (“DACC”) (collectively “AReM/DACC”) and the Protest filed by the California Energy Storage Alliance (“CESA”). No other parties filed a response or protest. Also, it should be noted that neither the AReM/DACC Response nor the CESA Protest raised any issues related to the energy efficiency (“EE”) contract with Willdan Energy Solutions (“Willdan”).

As discussed in further detail below, neither the AReM/DACC Response nor the CESA Protest raise any issues that would constitute grounds for rejecting or modifying SDG&E’s Application for approval of energy storage (“ES”) and EE contracts resulting from its 2014 Track IV Local Capacity Requirement All Source Request for Offers (“Track IV All Source RFO”). Indeed, the AReM/DACC Response seeks a clarification regarding how net capacity costs are to be calculated under the Local Generation Charge (“LGC”) as applied to energy

storage contracts, which is an issue SDG&E believes can be addressed through the course of the proceeding, either through discovery or an agreement. Regarding CESA's Protest, it ignores the fact that Commission's ES procurement requirement does not have to be fulfilled until 2021. More importantly, CESA's Protest is a bold attempt to inject its view of what it considers fair terms or negotiations, as opposed to what the contracting parties (in this case SDG&E and Hecate Energy Bancroft LLC ["Hecate"]) believe. CESA also ignores SDG&E's obligation to obtain energy for its customers at the lowest cost. Finally, CESA's call for an expanded or re-run RFO is mooted by the fact that SDG&E is already moving forward on another RFO, which includes consideration of additional ES and other preferable resources.

II. AReM/DACC'S RESPONSE RAISES AN ISSUE THAT SHOULD BE INCLUDED WITHIN THE SCOPE OF THIS PROCEEDING

AReM/DACC's Response seeks clarity on how SDG&E proposes to calculate the net capacity costs for the LGC that will apply to the ES contract with Hecate. As noted by AReM/DACC, D.14-03-004 authorized recovery of the costs of ES contracts through the LGC, which recovers net capacity costs from all customers, including direct access customers, as a non-bypassable charge, consistent with the Cost Allocation Methodology ("CAM").

SDG&E does not propose any changes to the existing LGC mechanism, which ensures that costs and benefits are shared by all benefitting customers and thereby allocates RA capacity credits to LSEs. SDG&E believes it can clarify its LGC proposal via discovery. Accordingly, SDG&E agrees that this clarification issue should be included within the scope of the proceeding, but it is premature to determine the specifics of how the clarification will be provided.

III. CESA’S PROTEST IS NOT CONSISTENT WITH THE COMMISSION’S DIRECTIVE REGARDING THE TIMING OF ES PROCUREMENT AND CONTRARY TO THE BEST INTEREST OF SDG&E’S CUSTOMERS

According to its website and footnote 1 of its Protest, CESA is “a membership-based advocacy group committed to advancing the role of energy storage in the electric power sector through policy, education, outreach, and research.”¹ Among others, its membership includes technology manufacturers, project developers and consulting firms.² It was founded in January 2009 by the managing partner of a consulting firm and Donald C. Liddell, Principal of Douglass & Liddell.³ Clearly, CESA is not a ratepayer advocacy group. Moreover, unlike SDG&E, CESA is not subject to the requirement that it act in the best interest of SDG&E’s customers. In fact, as stated in footnote 1 of its Protest, the views expressed in the Protest are those of CESA and “do not necessarily reflect the views of all the individual CESA member companies” (it should be noted that Hecate was not listed among its members).⁴ In any event, CESA would have the Commission order SDG&E to “expand or re-run” its Track IV All Source RFO to meet CESA’s view of when SDG&E should meet its ES procurement requirement, how SDG&E should negotiate, and what terms SDG&E should or should not include in its ES contracts.

CESA’s one-sided and self-serving view is not consistent with SDG&E’s Commission-mandated obligation to approach procurement from a least-cost, best-fit perspective. That is, SDG&E must meet its procurement requirements while keeping in mind its obligation to do so in a manner that results in the least cost to its customers. That an industry-sponsored advocacy group believes a contract is too favorable to SDG&E and its customers, despite the fact that the energy supplier (in this case Hecate) believed the contract was fair and reasonable, is not valid

¹ See <http://storagealliance.org>.

² *Id.*

³ *Id.*

⁴ CESA Protest at footnote 1.

grounds to order SDG&E to expand or re-run an RFO. Indeed, if the Commission were to adopt CESA's position, then every RFO would be at risk of having to be repeated each and every time an industry advocacy group like CESA believed that the contract or contracts that came out of the RFO were too favorable to the investor-owned utility ("IOU") and its customers. For example, would the fact that CESA disliked indemnity provisions or various delivery terms be sufficient grounds to expand or re-run a RFO?

Given the function of groups like CESA, to advocate for the best interest of a particular industry, SDG&E does not believe they should be allowed to dictate when or how an IOU negotiates its contracts. Such dictates fall within the sole purview of the Commission. For example, the Commission did not order that SDG&E should meet its entire ES obligation in a single RFO or that SDG&E should not include option provisions in its contracts. In fact, SDG&E believes the Commission expects SDG&E and the other IOUs to be reasonably aggressive and creative in obtaining terms most favorable for its customers. This is reflected in the fact that the Commission created a role for the Procurement Review Group, comprised of non-market participants, such as the Office of Ratepayer Advocates ("ORA") and The Utility Reform Network ("TURN"), in the RFO process. In this case, it is telling that none of non-market participant groups filed protests to this Application and the IE Report is supportive. Even more telling is the fact that Hecate believes the contract is fair and reasonable, even with the option to which CESA objects.

As explained in the supporting testimony, the Track IV All Source RFO resulted in SDG&E executing 38.5 MW of EE and ES contracts.⁵ Also, SDG&E acknowledged that the 38.5 MW procured through the Track IV All Source RFO is less than the 200 MW Track IV authorization target, and the amount of energy storage procured by SDG&E in the Track IV All

⁵ Direct Testimony of E. Shults at 3:1-8.

Source RFO is less than the 25 MW ES minimum.⁶ However, since it has until the end of 2021 to procure these preferred resources, SDG&E believed it was appropriate (i.e., consistent with its least-cost, best-fit obligation and approved procurement plan⁷) to take a deliberate and measured approach in this first Track IV All Source RFO. SDG&E further substantiated the reasonableness of its approach by highlighting the following factors in its testimony:

- The uniqueness of the Track IV All Source RFO presented various challenges and resulted in lessons learned which SDG&E has utilized and incorporated in its preferred resources LCR RFO, which issued on February 26, 2016.
- Since there is sufficient time for procurement of additional preferred resources and considering potential price declines in preferred resources and SDG&E's numerous other procurement opportunities, it was reasonable to delay filling its entire procurement obligation in a single RFO, which is what CESA appears to be claiming SDG&E should have done. As explained in the direct testimony, "battery technologies are quickly evolving"⁸ and "several of the all source product types (e.g., energy storage) are emerging technologies that are expected to

⁶ *Id.* at 3:8-16.

⁷ As indicated at p. 6 of SDG&E's LTPP/Track 4 Procurement Plan (Preferred Resources) dated July 18, 2014, which the Energy Division approved on July 22, 2014, "Evaluating multiple resources through one solicitation will lead to better understanding of how preferred resources can meet LCR needs in a cost-effective way. However, many of the preferred resource product types that SDG&E will solicit involve emerging technologies or hybrids that are new to the market. Also, SDG&E's smaller service territory may impact the volume, and correspondingly, the competitiveness of bids for preferred resources. SDG&E will closely monitor how these issues impact the cost and effectiveness of these bids. If SDG&E is unable to procure the targeted 200 MW of preferred resources through this solicitation, it will consider one or more of the following opportunities: (1) utilize existing preferred resource programs in an effort to fulfill any remaining LCR need; (2) hold additional solicitations for preferred resources to meet LCR needs; or (3) continue working towards bilateral arrangements. SDG&E will also strive to learn more about which resources best meet local reliability needs so that LCR procurement can be more targeted."

⁸ Direct Testimony of E. Shults at 5:5.

decline in costs (and ultimately price) over time due to manufacturing efficiencies and design/engineering improvements.”⁹

- A measured approach will allow SDG&E to optimize its overall power portfolio where appropriate by counting resources towards more than one procurement target and utilizing ongoing procurement mechanisms to meet its LCR need. This approach is consistent with SDG&E’s approved Track IV Preferred Resources Plan,¹⁰ and maximizes the numerous additional preferred resource procurement opportunities SDG&E has through its various procurement programs.

These factors resulted in SDG&E negotiating an option provision which Hecate ultimately agreed was reasonable, otherwise SDG&E believes Hecate would not have signed the agreement. The option provision is of limited duration and allows SDG&E to terminate the agreement if the contract fails to continue to be attractive for SDG&E customers. Presumably, Hecate signed the agreement based on its confidence that its offer will remain competitive. And if it does continue to be attractive, then SDG&E will not terminate the agreement and the online deadline of January 1, 2019 will continue to be viable.

Thus, the option provision does not constitute grounds for ordering SDG&E to expand or re-run its Track IV All Source RFO. Whether a RFO is valid should be based on whether or not it resulted in an IOU and energy supplier negotiating and executing an agreement that meets the needs of both sides, including the IOU’s requirement that it obtain energy at the lowest cost for its customers. Moreover, as noted above, CESA’s demand that SDG&E be forced to expand or

⁹ *Id.* at 5:11-14.

¹⁰ “Many of SDG&E’s existing preferred resource procurement programs already encourage participation from local projects. For example, the RAM program prioritizes local projects through its evaluation process and the Renewable Market Adjusting Tariff (“ReMAT”) is restricted to local projects. SDG&E may identify resources through its existing programs that could contribute to meeting its LCR need.” *See* p. 8 of SDG&E’s approved LTPP/Track IV Procurement Plan, dated July 18, 2014, which the Energy Division approved on July 22, 2014.

re-run its 2014 Track IV All Source RFO is mooted by the fact that SDG&E has already begun the process of running a new RFO, including consideration of ES and other preferable resource contracts.

Regarding CESA's calls for fewer contingencies and criticism of how SDG&E conducted its negotiations, again, these are areas within which SDG&E should be allowed discretion to act in the best interest of its customers by taking the approach that is most consistent with its least-cost, best-fit obligation. In the case of the specific contingency related to the Commission's approval of new time-of-use ("TOU") periods, SDG&E refers to its resource criteria within its 2014 All Source RFO documents that states that offers being subsidized by another Commission-regulated program or rate schedule shall not be considered. In short, given the existing, out-of-date TOU periods that SDG&E has requested be updated, behind-the-meter storage resources (acting in support of demand response) would be responding to inaccurate price signals and thereby creating an unacceptable cross subsidy. Also, regarding SDG&E's alleged "pattern bargaining," SDG&E did not intentionally structure its various negotiating efforts in a "pattern" or to unfairly take advantage of any particular party. Negotiations differ from RFO to RFO and each so-called pattern of negotiations is variable and a function of independent factors related to timing needs, availability of staff, and third-party availability. Accordingly, because the needs and drivers in each RFO will vary, SDG&E does not believe it is appropriate for the Commission to mandate the specific pattern of how negotiations are to proceed or to exclude any particular pattern of negotiations.

IV. CONCLUSION

For all the foregoing reasons, SDG&E believes that neither the AReM/DACC Response nor the CESA Protect have raised any issues that would justify rejecting or modifying this Application.

Accordingly, SDG&E respectfully requests that, in accordance with the proposed schedule outlined in the Application, the Commission issue a decision:

1. Approving the Application in its entirety;
2. Approving the All Source RFO and SDG&E's conduct with respect to the RFO as reasonable;
3. Approving the ES contract (Hecate) in its entirety, including the option term and SDG&E's proposal to file a Tier 1 Advice Letter to notify the Commission if the option is exercised by SDG&E within the option window;
4. Approving the EE contract (Willdan) in its entirety;
5. Finding the prices and terms of the contracts sought to be approved here, and SDG&E's entry into them, as just and reasonable;
6. Granting full cost recovery in rates, as requested by SDG&E. Specifically, SDG&E shall record the net capacity costs associated with the ES contract (Hecate) in its Local Generating Balancing Account ("LGBA") and, upon commencement of the contract, recover those costs through its LGC on a non-bypassable basis from its bundled service, DA and, CCA customers on an equal per kilowatt-hour basis by customer class, consistent with the Commission-approved CAM. For the EE contract (Willdan), SDG&E will recover the costs through the PPP component. The forecast of costs of the EE contract (Willdan) will be trued-up to their assessed recorded costs through the Electric Procurement Energy Efficiency Balancing Account ("EPEEBA"); and

7. Granting such other relief as is necessary and proper.

DATED this 16th day of May, 2016, at San Diego, California.

Respectfully submitted,

/s/ JOHN A. PACHECO
John A. Pacheco

Attorney for
San Diego Gas & Electric Company
8330 Century Park Court, CP32
San Diego, CA 92123
Telephone: (858) 654-1761
Facsimile: (619) 699-5027
jpacheco@semprautilities.com